

Product Profile

Product Details

Fund Assets	\$1,073,794,291.03
Fund Inception Date	22/12/2014
Number of Securities Including Cash	173
Base Currency	AUD
Investment Style	Multi-Sector
ARSN	601 662 631

Overview¹

- Actively managed portfolio of fixed income strategies designed to deliver attractive returns through the interest rate and credit cycles while protecting against capital volatility through strong risk management. The strategy may invest in Australian dollar and non-Australian dollar-denominated fixed income instruments including sovereign, corporate debt and derivative instruments.
- Below investment-grade exposure is limited to no more than 20% of portfolio net assets at the time of investment.
- Tracking Error: 200-400 basis points (annualised, gross of fees).
- The Fund can adopt duration position of up to 2.5 years in both long and short strategies.
- The Fund is able to invest up to 50% in non-AUD securities which are hedged back to AUD.

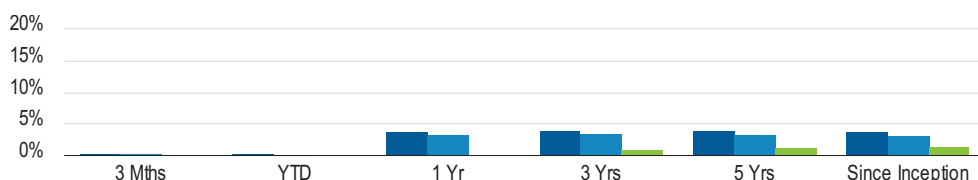
Performance Data

Average Annual Total Return (Institutional, AUD, %)²

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (22/12/2014)
Franklin Australian Absolute Return Bond Fund - Gross of Fees Institutional	0.48	0.47	3.79	4.11	3.99	3.80
Franklin Australian Absolute Return Bond Fund - Net of Fees Institutional	0.38	0.27	3.38	3.55	3.42	3.21
Bloomberg AusBond Bank Bill Index	0.01	0.01	0.06	0.96	1.29	1.53

Average Annual Total Return (Wholesale, AUD, %)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (22/12/2014)
Franklin Australian Absolute Return Bond Fund - Gross of Fees Wholesale	0.48	0.46	3.78	4.10	3.99	3.80
Franklin Australian Absolute Return Bond Fund - Net of Fees Wholesale	0.35	0.22	3.26	3.48	3.35	3.15
Bloomberg AusBond Bank Bill Index	0.01	0.01	0.06	0.96	1.29	1.53



- Franklin Australian Absolute Return Bond Fund - Gross of Fees Wholesale
- Franklin Australian Absolute Return Bond Fund - Net of Fees Wholesale
- Bloomberg AusBond Bank Bill Index

1. There is no assurance that the fund will achieve its investment objectives. The fund is managed in a benchmark-unconstrained manner, so the expected risk and return profile is provided solely to illustrate the manager's expectations with respect to fund characteristics, based on the fund's historical experience during normal market conditions. **Past performance is not an indicator or a guarantee of future performance. Thus, the characteristics do not take into account future market risks or changing economic conditions and are not a prediction or guarantee of future performance.** An investor in the fund may experience significantly different risk and return characteristics including greater volatility, higher tracking error and lower returns than the expected characteristics, including the potential for loss of principal amounts invested. Risk and return characteristics do not take into account management fees or other expenses an investor would incur in the management of its account, which would reduce any returns and affect the risk characteristic measurements.

2. Periods of more than one year are annualised. **Past performance is not an indicator or a guarantee of future performance.**

Calendar Year Returns (Wholesale, AUD, %)

	2020	2019	2018	2017	2016	2015
Franklin Australian Absolute Return Bond Fund - Gross of Fees Wholesale	4.91	5.43	2.90	4.04	3.61	3.43
Franklin Australian Absolute Return Bond Fund - Net of Fees Wholesale	4.31	4.75	2.23	3.37	2.94	2.76
Bloomberg AusBond Bank Bill Index	0.37	1.50	1.92	1.75	2.07	2.33

Portfolio Manager Insight

Market Review

- Amid further signs of economic recovery, most major central banks maintained their monetary policies in the June quarter.
- The Reserve Bank of Australia (RBA) left its key interest rates unchanged over the period, although it announced shortly after the end of the review period that it would be cutting its bond-buying program from September onwards.
- Data released over the period showed that the Australian economy had grown by a stronger-than-expected 1.8% quarter-on-quarter over the first three months of 2021.
- Against a backdrop of continued fiscal measures and highly accommodative financial conditions, the RBA forecasted gross domestic product to increase by 4.75% in 2021 and 3.5% over 2022.
- Australian government bond and US Treasury yields fell throughout the second quarter of 2021.

Performance Review

- Over the second quarter, the fund returned 0.48%, outperforming its benchmark.
- Inflation positioning contributed over the quarter, notably a long position in US breakeven inflation.
- Positioning in corporate bonds and non-government sectors added relative value over the quarter, as spreads continued to grind tighter.
- Currency positioning was flat over the quarter.
- Regarding duration, we remain overweight in select parts of the Australian and New Zealand curves; these are focus positions as we move into the third quarter of 2021.

Outlook & Strategy

- We anticipate a slow but steady recovery in the Australian economy and across many parts of the world but believe that the impact of the pandemic is likely to be longer and more pronounced than previously imagined.
- We doubt that the fiscal measures employed by the US Biden administration will prove to be more than short term in providing stimulus.
- In our view, the US dollar is going down, if not this year then over coming years.
- We believe central banks are unlikely to get very far with any future attempts to taper their quantitative-easing programs, should interest rates rise by any material amount.
- In credit markets, we will continue to seek bonds issued by strong corporates that can weather the COVID-19 slowdown and emerge in a strong position. As prices have recovered quickly, we have trimmed exposure in corporates. Meanwhile, we continue to add selected exposures as they arise and remain alert to any favorably priced new issues.
- We remain cautious on the outlook for high yield and riskier credit, where we have no exposure. Despite global central bank support to these markets, we believe that the bankruptcy and default cycle is almost certain to be the worst since the global financial crisis over the coming months, and that risk is not appropriately priced for this outcome.

Portfolio Characteristics^{a,b}

	Portfolio
Number of Securities Including Cash	173
Yield to Maturity	1.71%
Yield to Worst	1.63%
Average Credit Quality ³	A+
Average Duration	2.01 Yrs
Average Weighted Maturity	5.46 Yrs

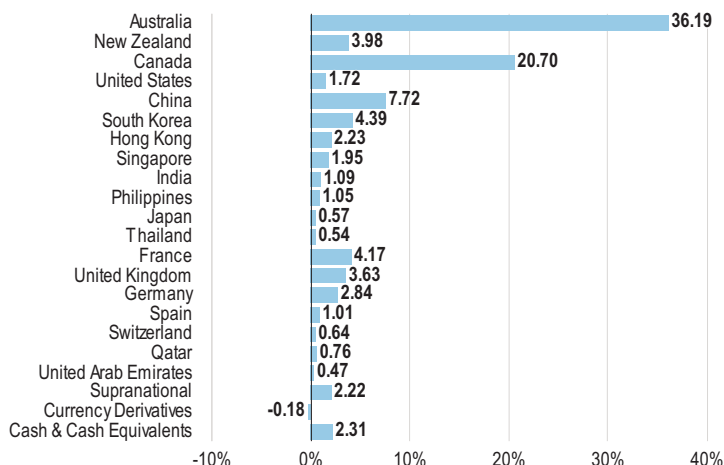
3. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate the average credit rating of the portfolio's underlying investments and generally ranges from AAA (highest) to D (lowest). For unrated bonds, cash and equivalents, ratings may be assigned based on the ratings of the issuer, the ratings of the underlying holdings of a pooled investment vehicle, or other relevant factors. The ACQ is determined by assigning a sequential integer to all credit ratings AAA to D, taking a simple, asset-weighted average of investments by market value and rounding to the nearest rating. The risk of default increases as a bond's rating decreases, so the ACQ provided is not a statistical measurement of the portfolio's default risk because a simple, weighted average does not measure the increasing level of risk from lower-rated bonds. The ACQ may be lower if cash and equivalents are excluded from the calculation. The ACQ is provided for informational purposes only. Derivative positions are not reflected in the ACQ.

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Portfolio Diversification

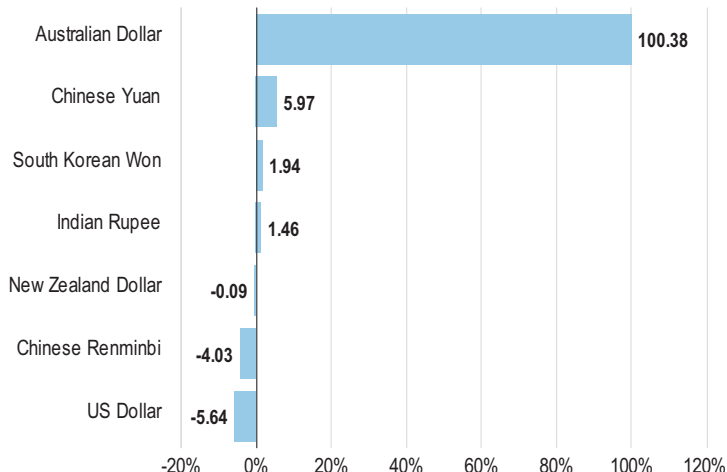
Geographic Allocation^{c,d}

Market Value—Percent of Total



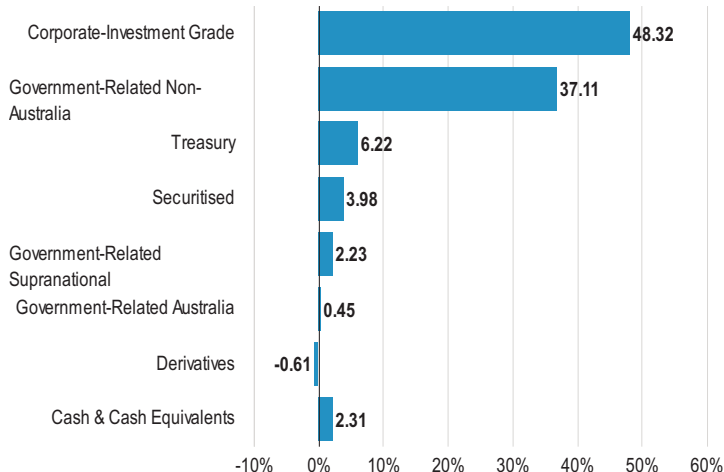
Currency Exposure^e

Notional Exposure—Percent of Total



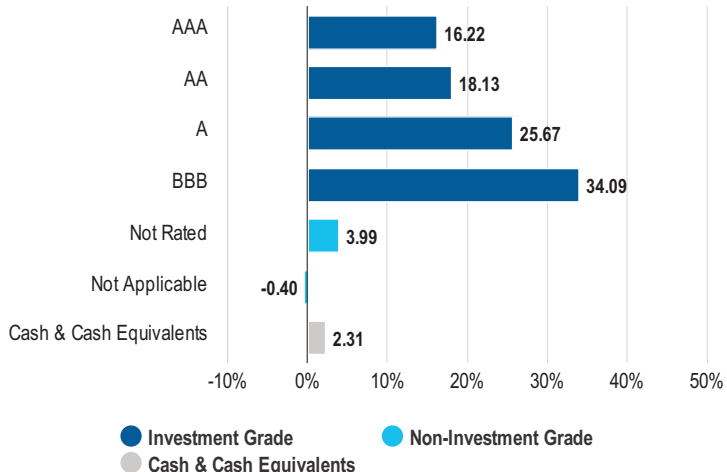
Sector Allocation^d

Market Value—Percent of Total



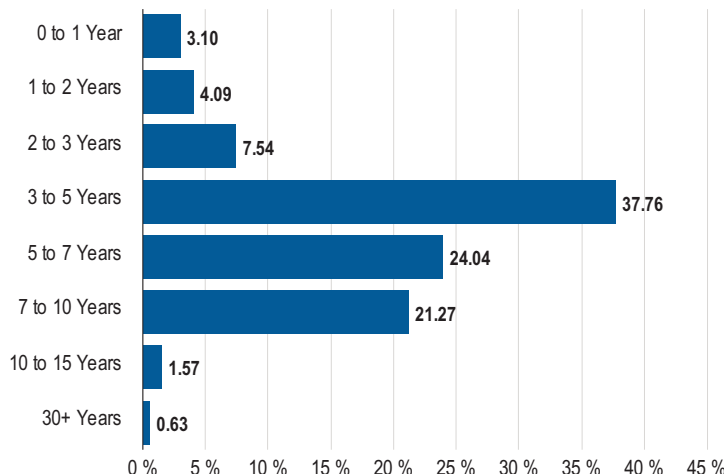
Credit Quality Allocation^{d,4}

Market Value—Percent of Total



Maturity Allocation^d

Market Value—Percent of Total



4. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.

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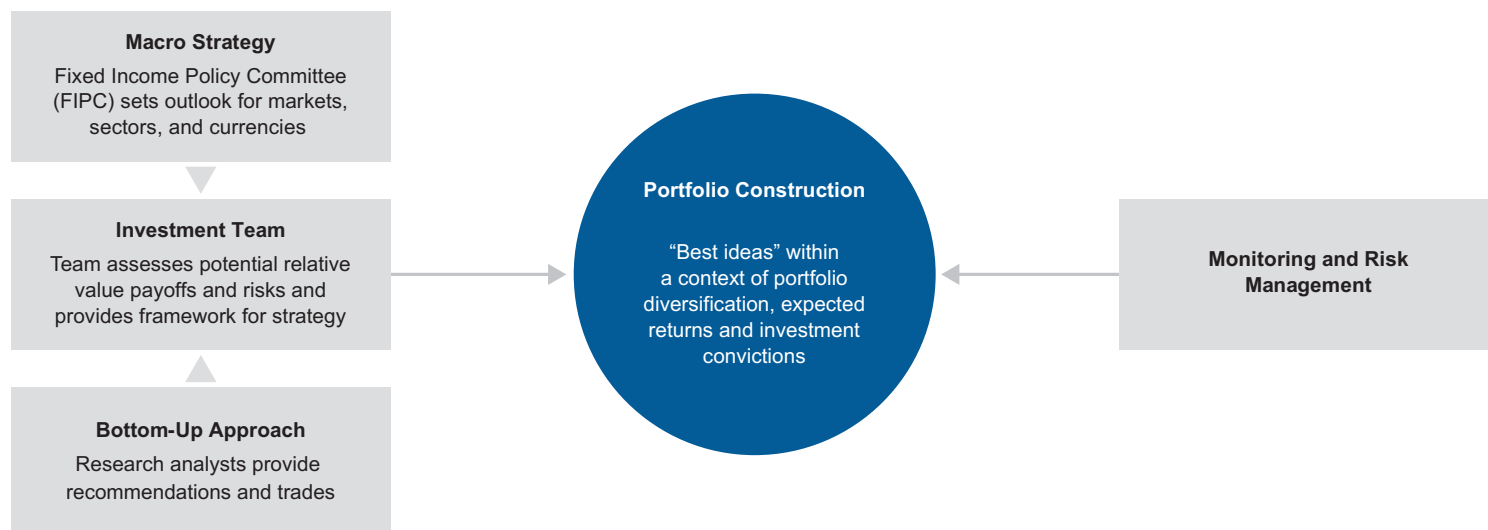
Investment Philosophy

We believe in applying a fundamental, research-driven approach focused on identifying potential sources of return (current income and capital appreciation). We aim to capitalise on ideas across the broad fixed income opportunity set to provide the best potential for solid risk-adjusted returns over time. We seek to accomplish robust absolute returns by implementing a large number of small, low correlated active positions. Risk management is integral to our philosophy with each stage of our investment process subject to careful risk control and monitoring.

The Australian Fixed Income team research mandate is broader than the Australian economy and market. The changing nature of the Australian bond market has resulted in an asset class that is international in composition and drivers of return. Evaluating and capturing the full breadth of opportunity in Australian fixed income requires a global lens. We believe that simply investing into credit markets or extending duration will not deliver the desired outcomes going forward. This therefore creates broader scope to build portfolios that blend local opportunities with alternative global exposure to maximise return outcomes and provides for better risk management.

Investment Process

As an active alpha-seeking strategy, the Franklin Australian Absolute Return Bond strategy applies a fundamental, research-driven approach to identifying potential sources of total return. Two broad areas of investment opportunity are researched continuously by the Fixed Income Group— (1) Macro Strategy; and, (2) Bottom-up company research. The investment insights produced from this research are shared across the globe for investment teams to determine how the insights relate to their portfolios. The Australian Fixed Income team assesses the relevant macro recommendations, to formulate the investment strategy framework which provides the basis of Australian portfolio construction. The construction process builds portfolios using these “best ideas” within the context of the strategy’s portfolio diversification, expected returns, relative value and investment convictions. Importantly, the Australian Fixed Income team works within a disciplined investment risk management framework, integrated with the expertise of Franklin Templeton’s global risk specialists.



Country and Duration Decision

- Combine fundamental analysis and econometric models to determine what we consider the optimal country, duration and yield curve strategy.
- Analysis of fundamental factors includes: monetary and fiscal policy, the economic cycle, macroeconomic disequilibria, political influences, changes in global and local short-term interest rates, inflationary expectations, liquidity, valuations, as well as technical factors.

Currency Decision

- Proprietary macroeconomic-based models used to objectively analyse the relative value of currencies.
- In-depth analysis to understand trends and reveal catalysts that may drive a currency’s revaluation.
- Scenario analysis is used to position the strategy for anticipated changes in the global economy and stress tests the portfolio for unanticipated shocks.

Security Selection

- Dedicated analysts conduct in-depth fundamental technical research on individual issuers as well as make macro-based industry valuations.
- Using bottom-up strategies involving fundamental opinions with relative value analysis to determine the securities which provide the most attractive risk-adjusted returns.

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Chris Siniakov	7	27
Andrew Charles Canobi, CFA	7	27

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Important Legal Information

Basis for Performance for the Franklin Australian Absolute Return Bond Fund ("The Fund"): Performance figures represent the aggregate total return net of fees for the period indicated for the Franklin Australian Absolute Return Bond Fund (ARSN 137 298 714), an umbrella fund formed under the laws of Australia. This report does not constitute or form part of any offer for shares of the Fund or an invitation to apply for shares. Subscriptions for shares in the Fund can only be made on the basis of the Fund's most recent Product Disclosure Statement document ("PDS"). The price of shares and income from them can go down as well as up and you may not get back the full amount that you invested. Currency fluctuations will affect the value of overseas investments. An investment in this Fund entails risks which are described in the PDS document. Please consult your professional advisor before deciding to invest.

Total returns are presented in Australian dollars both gross and net of investment advisory fees, are inclusive of commissions and transaction costs, and assume reinvestment of any dividends, interest income, capital gains, or other earnings. Periods greater than one year are shown as average annual total returns. Performance data is shown rounded to the nearest hundredth. **Past performance is not an indicator or a guarantee of future performance.**

The primary benchmark is Bloomberg AusBond Bank Bill Index. The benchmark is broadly indicative of the style of the Fund and is provided for comparative purposes only to represent the investment environment existing during the time periods shown. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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- a. Yield to Maturity, Yield to Worst, Average Duration and Average Weighted Maturity reflect certain derivatives held in portfolio (or their underlying reference assets).
- b. Yield figures quoted should not be used as an indication of the income that has or will be received. Yield figures are based on the portfolio's underlying holdings and do not represent a payout of the portfolio. **Past performance is not an indicator or a guarantee of future performance.**
- c. Geographic Allocation is the fund's market value allocation to Country of Risk. It generally relates to the domicile of the issuer of the security, but may be based on risk characteristics of the security, such as the geography where the issuer of the securities carries out the majority of its business.
- d. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.
- e. Notional exposure figures are intended to estimate the portfolio's exposure, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets). Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

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